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TO RUEHC/SECSTATE WASHDC PRIORITY 1718
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE PRIORITY
RUEHCV/AMEMBASSY CARACAS PRIORITY 0341
RUEHME/AMEMBASSY MEXICO PRIORITY 6286
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY
RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUEHLMC/MILLENNIUM CHALLENGE CORP PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 TEGUCIGALPA 000676

SIPDIS

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STATE FOR EB/ESC, WHA/EPSC, WHA/PPC, AND WHA/CEN
STATE FOR D, E, P, AND WHA
TREASURY FOR DDOUGLASS
STATE PASS AID FOR LAC/CAM
NSC FOR DAN FISK

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SUBJECT: HONDURAS: FUEL BID CONSULTANT LEAVES WITHOUT
CONTRACT; DOOR MAY BE OPEN TO OTHER ALTERNATIVES

REF: TEGUCIGALPA 623 AND PREVIOUS

Classified By: CDA James Williard for reasons 1.4 (b) and (d)

¶1. (SBU) Summary: The main fuel consultant pushing for an international fuel bid left the country abruptly March 31 when agreement was not reached on his contract to run a proposed international fuel bid. Honduran President Jose Manuel &Mel8 Zelaya continued to support the hiring of the consultant, if offered sufficient performance guarantees, but indicated that other alternatives are possible. With momentum slowed, now may be the time for a better plan to emerge. End Summary.

¶2. (C) U.S. citizen consultant Robert Meyeringh, the author of the international fuel bid strategy and chief candidate to lead the bid effort, left the country without an agreement March 31 as pressure mounted to include a &guaranteed savings clause8 in his contract. Per reftel, that savings guarantee is estimated at about five U.S. cents per gallon, or roughly USD 20 million per year. Per newspaper accounts, the final payment on Meyeringh,s contract, estimated at USD 750,000, would be withheld pending a review of the savings clause. The contract is also rumored to have a performance bonus of USD 1.2 million if Meyeringh realizes his oft-stated potential savings of USD 66.6 million per year.

¶3. (C) President Jose Manuel &Mel8 Zelaya made a point of stating the agreement with Meyeringh will still go forward, and that, of twelve major points in his contract, they have already agreed to eleven. Interestingly, Zelaya stated that he has received consulting offers on the bid from &Mexico, Venezuela, and Costa Rica8 and would not have &to spend a nickel for advice.8 Mexico has been in contact with Honduras through their Mesoamerican Energy Initiative, and Venezuela through PetroCaribe. Vice President Elvin Santos mentioned Thursday to Ambassador that Venezuelan state oil company PdVSA will be arriving this week for follow-up talks after the recent visit by Minister of Labor Rixi Moncada (reftel) to meet with President Chavez in Venezuela.

¶4. (C) While no consulting interest has been publicly expressed by Costa Rica, a high level Honduran delegation visited Costa Rica,s state petroleum company Recope in

January, and Costa Rican President-elect Oscar Arias was reported on local radio last week warning Honduras that buying through a monopoly is a bad idea.⁸ Minister of the Presidency Yani Rosenthal later added that the World Bank also had expressed interest in providing a consultant.

15. (C) The UTP (Technical Petroleum Unit), the group that currently sets retail gasoline prices and would eventually constitute Meyeringh's staff, expressed skepticism in regards to the national bid. Wilberto Pinot, deputy chief of the UTP, doubted that his team of ten people would compete effectively at the negotiating table with traders that have years of experience.⁸ He added that a potential alternative was to simplify the current formula (that sets end-user prices), allow limited competition in the key areas of importation, distribution and retail, and prove a clear path towards market liberalization.

16. (C) The local representatives of gasoline importers reacted to the news about Meyeringh with guarded interest. The Exxon representative was planning on contacting his home office to discuss the next steps, to include perhaps contacting Invincible Energy, a U.K. energy consulting firm that apparently has been contracted by the IDB to identify the best location for a future refinery in Central America. The refinery would play a key component in the proposed Mexican Mesoamerican Energy Initiative. It's not clear if contacting Invincible would help Exxon develop a sorely needed plan &B8 that might include regional integration. Sounding jaded, the representative needed encouragement from EconOff to follow-up on a meeting with President Zelaya that Foreign Minister Milton Jimenez offered to arrange.

TEGUCIGALP 00000676 002 OF 002

17. (C) Mario del Cid, the fuel industry spokesman who had previously correctly indicated that the contract with Meyeringh had not yet been signed (reftel), was also vague on next steps. He indicated that he had been in contact with former president of Congress and failed Presidential candidate Porfirio &Pepe⁸ Lobo, President of the National Party and a personal friend, who stated that the U.S. Embassy would be the key player in the next few weeks, but the context was unclear. Del Cid did speculate that suitors for Honduran gasoline retailer DIPPSA, rumored to range from Venezuela's national oil company PdVSA to local Honduran business magnate Freddy Nasser, may now include the French energy conglomerate Total. On potential bidders for the national tender, del Cid could not identify one. &Every fuel company here has had problems with delivery in the past, but they've been able to cover their commitments from other companies. Nobody is willing to take on that commitment alone,⁸ he stated.

18. (C) Comment: The dispute over Meyeringh's contract may reflect President Zelaya's growing confidence over a new strategy: distance himself from the bid by placing the ultimate responsibility of delivering results in Meyeringh's hands (and wallet). By showing the Honduran populace that the move to an international bid may not guarantee savings, Zelaya has effectively opened the door to new options. With fuel industry representatives tiring of dealing with seemingly rudderless government policy on this issue, a key moment in helping define an alternative path could be missed.

End Comment.
Williard